housing. Consumer demand should be strong as incomes advance, and if social insurance payments are raised by the Congress, Government expenditures will increase, with State and local governments making a large contribution to the rise.

There remain a number of uncertainties notably in the areas of plant and equipment spending, inventory adjustments, and automobile purchases.

The President has wisely proposed that a 6-percent surcharge on personal and corporate incomes be made effective July 1. This will come at the proper time to steer the economy toward a more balanced and sustainable growth.

Given our present expectations, and assuming the policy changes to take place, this adds up to a rising pace of economic activity throughout the year ahead.

I am, on balance, cautiously optimistic in economic outlook. And I am optimistic also in the sense that I believe we have the tools to influence our economy in the direction of stability when instability threatens. This is the import of our mixed outlook and the package of responses to it, which have been admirably set forth in the President's Economic Report.

Let me now turn to some matters of importance to the Nation's economy, which are of particular interest to the Department of Commerce.

Foreign Trade

U.S. foreign trade reached new record highs in 1966.

U.S. exports—excluding military grant aid—rose to $29.4 billion. This was $3 billion or 10 percent higher than the 1965 total—a rate of growth well above the 7-percent average achieved during 1961–65.

Imports, however, increased by nearly 20 percent to $25.6 billion. The 1966 rise was double the average import growth rate in the preceding 5 years.

Thus, although exports showed great strength, the gross export surplus declined from its 1965 level by $1.5 billion to $3.8 billion.

A further expansion of U.S. trade is in prospect for 1967, with exports advancing almost as strongly as last year and imports rising at a considerable reduced rate. Unlike 1966 when our foreign purchases expanded at double the pace shown by our foreign sales, the growth rate for imports is expected to fall.

Exports of manufactured products are expected to continue at a brisk pace. Unfilled export orders for U.S. machinery point to a further rapid increase in shipments well into the first half. Continued technological progress will enable the United States to maintain its generally strong competitive position in several important fields. We may double the 1966 rate of increase in transport equipment exports.

There should be good gains in agricultural exports for the second year in a row. Last year's sharp rise, mainly in wheat and feed grains, will not, however, recur in 1967.

Imports are expected to increase much less strongly that last year in line with the more moderate pace of our economy. Imports of consumer goods should move up more slowly. Business purchases of foreign equipment are likely to be similarly affected by the much